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SUBJECT: POPPIES, AK-47S, AND WOLFRAMITE: A TRIP TO WA AND KOKANG

1. (SBU) Summary: A brief visit to a major opium production region in eastern Burma, some of it well outside the writ of the Rangoon generals, presented some clear themes. The non-Burman militias and governments that hold sway in the eastern border zones govern a region that is far more reliant on China than Rangoon for its economic well-being. Poppies, opium, and heroin are on the decline, while amphetamines are gaining strength. The reduction of poppy production is in part due to some economic development and crop substitution programs. However, all admitted much more needed to be done -- and the international community should help. The question that stuck in our mind, though, is whether the obviously wealthy ethnic leaders were doing enough on their own to give their people a better, drug-free, life. End summary.

Where in the World?

2. (U) To publicize its efforts to fight narcotics production, and to make the case for more international aid, the Burmese counter-narcotics police and military intelligence organized a trip for ASEAN, EU, Japanese, and U.S. diplomats and police officials into northern Shan State, and the otherwise off-limits Special Regions One (Kokang) and Two (northern Wa). Shan State is the largest of Burma's 14 states and divisions, and forms a large "bubble" on the eastern portion of the country, bordering China, Laos, and Thailand. This particular trip focused on the primary border crossing at Muse, along the northern border of Shan State and China, before swinging east into the semi-autonomous Special Regions on the northeastern Shan-China border. This rather inaccessible area is notorious for insurgent groups, and the production of poppies, opium and heroin, and now amphetamines.

3. (U) The Wa and Kokang zones are visitable now because of cease-fire agreements the government negotiated in the late 1980s and 1990s. In exchange for significant political and economic autonomy, the regions were opened up to "outsiders" -- both Burmans and international organizations -- to assess the narcotics situation and try to reduce production and trafficking. Although the Burmese national police and military maintain large presences in the two Special Regions, both the Wa and Kokang ethnic groups maintain their own leadership structure and well-armed militias, and seem to run their own local government with minimal interference from the central government.

Drugs: Beating Poppies Into Rubber Trees

4. (SBU) Poppy growing and the production and trafficking of opium and heroin seem to be on the decline. A senior Kokang leader said his region has been poppy and opium free since 2002. Police sources reported that local seizures of heroin have been rising steadily since 2001, but that seizures of raw opium are down significantly since 2002. One of the most serious challenges now, the police reported, is stopping the production and export of amphetamine type substances (ATS) and the import of ATS precursor chemicals. These trends track with our own findings, and the findings of the joint U.S.-Burma annual opium survey.

5. (U) There was much talk from all sides of the importance of crop substitution and other economic development programs as antidotes to poppy and ATS production. The GOB officials (police and military) along with the Wa and Kokang ethnic representatives all complained that without more international support, though, these efforts were doomed to failure. Besides a lack of international aid, local officials pointed out other constraints to the success of crop substitution: the lack of secure and accessible markets for the new cash crops (China has agreed to accept a lot duty free, but infrastructure remains a problem); the difficulty of finding suitable crops for the local soil and climate for which there is also a demand in China; and, the lack of adequate motorized transport and good roads to take the new crops to market.

6. (SBU) Despite these constraints, in this corner of Shan State there were a number of examples of substitution efforts

underway. However, our brief visits to these sites and the one-sided presentations we heard made it difficult to assess these projects' significance or success. Throughout the region we saw hillsides once dominated by poppies, but now covered in rubber trees, sugar cane, and other cash crops. We also saw efforts in the Kokang, Wa, and Burmese zones to develop some economic alternatives for farmers; whether it be a rubber plantation and factory in Wa, a Japanese government-sponsored buckwheat growing program in Kokang, or a 1000-acre "model" training farm near Lashio, in Burmese-controlled northern Shan State.

17. (SBU) One controversial aspect of the substitution programs is the forced relocation of poppy farmers to new terrain. In both Namtik (Wa region) and Laukaing (Kokang region), local leaders were proud of recent efforts to move 600 and 200 households respectively from hillside farming areas to lowland areas. In both cases the leaders said they had given housing and farming assistance to the transplants, but they gave no details and we had no chance to talk directly with the farmers.

Politics: China's Burmese Protectorate

18. (U) The dominance, vice influence, of China in the whole area was startling. Particularly in the Wa and Kokang ethnic zones, there was very little economic or cultural Burmese influence. Because of difficult terrain and road conditions, these areas were far more accessible to China's Yunnan Province than to the main trade routes inside Burma. In Laukaing (still well inside the Burmese border), kyat was not accepted (only PRC yuan), Burmese was not widely spoken, and there were no Burmese products in sight.

19. (U) The economic reliance of the region on China is pervasive, and indicative of the importance of China to Burmese consumers around the country. As mentioned, the success of the crop substitution programs in Wa and Kokang rests, in part, on the ability to establish reliable, accessible, and untaxed markets on the Chinese side of the border. Even in other regions of Burma, though, the consumption of cheap Chinese consumer goods is a way of life from Rangoon to the remotest outpost. An Embassy official recently visiting Tamu on the Indian border noted the prevalence of Chinese products versus Indian products, despite relative proximity of the area to India.

110. (U) The importance of China is not limited to economics and trade, though. During our Shan trip, there was much focus on cross-border cooperation for narcotics control. Burmese police and military officials credited improved drug interdiction cooperation, and some prisoner exchanges, to regular consultations with their Chinese counterparts.

Economics: One Word for You...Wolframite

111. (SBU) The level of development in the towns of the Wa and Kokang regions, the quality of the ethnic militias' weapons and uniforms, and the newness and quality of the ethnic leadership's vehicles, indicated diverse and significant sources of income that cannot be explained solely by the success of the new cash crops. Much of this is assumed to come from narcotics trafficking. On the legitimate side, the Wa leaders mentioned they had local mining concessions (producing wolframite and some coal, which was bought by China) and some jade claims to the northwest in Kachin State. Wa and Kokang businesspeople are also involved in various manufacturing ventures as well as large construction and public works projects across the country. Popular locally owned and operated brothels and casinos were widely available in the larger towns of the Wa and Kokang regions.

112. (SBU) The main crossing for border trade was in Muse, which is connected to Mandalay via Lashio along a very good tollway built and operated by Asia World (a company founded in the 1990s by a former Kokang leader, and suspected narcotrafficker, Lo Hsing-han). There are at least four checkpoints along this route where trucks must stop and be searched by Customs officials. At the checkpoint closest to the border, Customs officials say that they check 30-40 outgoing trucks per day and 35-50 incoming. Though the inspections appeared diligent while the delegation was there, Rangoon-based border traders report that the inspection process primarily involves paying a pre-arranged fee to the chief inspector. These traders complain that without some "facilitation" each of the checkpoints can hold up a shipment anywhere from one day to one week.

Comment: Meet You Halfway

113. (SBU) It is clear that without more and better economic development programs, including crop substitution, it will be difficult for dirt poor locals to be enticed away from drug production and trafficking. Although our visit was very short, it appears that the local ethnic officials -- who seem to be able to spend significant funds on luxury items and the development of very modern entertainment facilities -- may

not be contributing all they should to improving the standards of living of their people. This phenomenon is not limited to the Wa and Kokang. In other areas, such as eastern Kachin State, where ethnic cease-fire groups have been given lucrative economic autonomy by the government, little seems to trickle down to the average person. This is something that should be pondered when considering additional international assistance for these regions.

McMullen